

City of Detroit

OFFICE OF THE AUDITOR GENERAL



**Audit of the Finance Department
Administration Division's
Imprest Cash
November 2006 – October 2008**



City of Detroit
OFFICE OF THE AUDITOR GENERAL
COLEMAN A. YOUNG MUNICIPAL CENTER
2 WOODWARD AVENUE, SUITE 208
DETROIT, MICHIGAN 48226
PHONE: (313) 224-3101
FAX: (313) 224-4091
WWW.CI.DETROIT.MI.US

LOREN E. MONROE, CPA
AUDITOR GENERAL

MEMORANDUM

DATE: April 15, 2009

TO: Honorable City Council

FROM: Loren E. Monroe, CPA *Loren E. Monroe*
Auditor General

RE: Audit of the Finance Department – Administration Division's Imprest Cash

CC: Mayor Kenneth V. Cockrel, Jr.
Joseph L. Harris, Chief Financial Officer

Attached for your review is our report on the audit of the Finance Department – Administration Division's Imprest Cash. This report contains our audit purpose, scope, objectives, methodology and conclusions; background; our audit findings and recommendations; other finding related to the Finance Department and the response from the Finance Department.

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the Finance Department. Responsibility for monitoring the implementation of recommendations is set forth in section 4-205 of the City Charter which states in part:

Recommendations which are not put into effect by the agency shall be reviewed by the Finance Director who shall advise the Auditor General and the City Council of the action being taken with respect to the recommendations.

We would like to thank the Finance Department – Administration Division for their cooperation and assistance extended to us during this audit.

Copies of all of the Office of the Auditor General's reports can be found on our website at http://www.ci.detroit.mi.us/legislative/CharterAppointments/AuditorGeneral/audit_main_frame.htm

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Finance Department

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AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS

AUDIT PURPOSE

The audit of the Finance Department – Administration Division’s Imprest Cash was performed in accordance with the Office of the Auditor General’s (OAG) Charter mandate to audit the financial transactions of all City agencies at least once every two years and report findings and recommendations to the City Council and the Mayor.

AUDIT SCOPE

The scope of this audit was limited to a review of the imprest cash fund of the Finance Department - Administration Division for the period November 1, 2006 through October 31, 2008.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external peer review of the Office of the Auditor General within the last three years.

AUDIT OBJECTIVES

The overall audit objectives were:

- To determine whether the actual amount of the imprest cash fund is in agreement with the authorized amount.
- To determine whether imprest cash transactions are properly authorized.
- To determine if imprest cash is safeguarded against loss, theft, and unauthorized or improper use.
- To determine if the Finance Department - Administration Division is in compliance with the Finance Department’s Imprest Cash Manual, relevant Finance Directives and other Finance Department policies.

AUDIT METHODOLOGY

To accomplish our audit objectives, our audit work included:

- Interviews with staff of the Finance Department, and documentation of the process for imprest cash transactions.
- Review of internal controls related to topics included in the City’s Imprest Cash Manual, along with relevant Finance Directives and Finance Department procedures.
- Review of imprest cash documents from the Finance Department - Administration Division and from the Accounts Payable Division of the Finance Department.
- Other audit procedures that we considered necessary to achieve our audit objectives.

CONCLUSIONS

As a result of our audit we have concluded that:

- The actual amount of the imprest cash fund was in agreement with the authorized amount.
- Imprest cash transactions were not properly authorized.
- Imprest cash was not adequately safeguarded.
- The Finance Department - Administration Division was not in compliance with the City's Imprest Cash Policies and Procedures or with other City procedures.

BACKGROUND

The Finance Department is responsible for maintaining the City's financial solvency, providing finance-based services to City departments and facilitating economic growth in Detroit through the effective and efficient management of resources and processes that provide essential services, a safer environment and an improved business climate for the City's public and private sector.

The Finance Department's primary responsibilities focus upon safeguarding the City's financial position by maximizing revenues, controlling expenditures, managing risk exposure, monitoring debt parameters, and reporting financial information.

The Finance Department is comprised of eight divisions, one of which is the Administration Division. The Administrative Division sets and maintains policies and procedures to be used throughout the department.

Joseph L. Harris was appointed Chief Financial Officer in October 2008. Roger Short and Norman White, who were appointed to the position in September 2006 and December 2007 respectively, preceded Mr. Harris.

The following table shows the budgeted appropriations, revenues, and number of staff, for the Finance Department for the 2006-2007 and 2007-2008 fiscal years.

	<u>Fiscal Year Ended June 30</u>	
	<u>2007</u>	<u>2008</u>
Budgeted Appropriations	\$ 34,033,935	\$ 37,035,910
Budgeted Revenues	\$ 7,028,996	\$ 9,755,067
Number of Staff	333	351

The Finance Department - Administration Division has authorized imprest cash of \$1,000, which is maintained solely as a checking account.

AUDIT FINDINGS AND RECOMMENDATIONS

1. Non-compliance with Imprest Cash Policies and Procedures

Our examination of the adequacy of the handling and reporting procedures in connection with the Finance Department – Administration Division's (Division) imprest cash fund revealed the following internal control weaknesses and non-compliance items:

- Monthly bank reconciliations were not performed.
- Quarterly independent audits were not completed accurately.
- The Division did not have an alternate custodian.
- Employees who made purchases did not sign invoices that were submitted to Accounts Payable for reimbursement.
- The Division purchased a subscription over the allowable amount stipulated in the Imprest Cash Manual.
- The Division did not submit requests for reimbursement within 30 days after the end of the month in which the purchase was made.
- The Division used imprest cash to purchase refreshments without prior approval from the Finance Director. Approval for the refreshments was granted approximately four months after the event.
- An unauthorized signer approved the check request in the amount of \$862.50 for the refreshments identified above.
- The custodian no longer works in the Division, and therefore did not have physical custody of the checkbook, or knowledge of the location of the checkbook.

The Imprest Cash Manual requires:

- All checking accounts must be reconciled with the bank statements monthly.
- In addition to the normal reconciliation of imprest cash funds, a supervisor or accounting personnel must make periodic audits. The audit must include information that would be required in reconciling an imprest cash fund. Changes in the custodian and/or alternate custodians must be reported promptly to the Finance Department.
- Each invoice, sales ticket and receipt for imprest cash purchases must show the date paid, be signed by the employee making the purchase, and clearly indicate the purpose or function of the purchase.
- Publications, subscriptions and memberships over \$20.00 per order may not be purchased with imprest cash.

Other City policies specify:

- All imprest cash reimbursement requests must be made within thirty days from the end of the month in which the original purchase was made.
- Authorization requests for the purchase of food and refreshments must be made in writing no later than five business days prior to the date for which funds are being requested. Further, the authorized funding level of the imprest cash account for the requesting department will be reduced by the amount of any unauthorized or improper purchase of food or refreshments.
- All authorized signers be documented on the Authorized Signature Record.
- An imprest cash custodian and alternate be named in order to establish an imprest cash fund. A custodian is one who takes charge of safekeeping property; therefore, physical control of the property is required to fulfill the duties of a custodian.

Imprest cash funds are susceptible to theft, misuse, and other loss. Failure to follow the controls of the imprest cash manual increases the risk that discrepancies, loss, or misuse of imprest cash will not be identified and resolved promptly. Moreover, the custodian's control and accountability are weakened when the custodian does not maintain physical custody of the account.

According to the Finance Department, staff reductions have resulted in the lack of qualified staff to maintain the necessary controls.

Recommendation

We recommend the Division comply with its Imprest Cash Manual and other policies and procedures set forth by the Finance Department or close the imprest cash account and return the funds to the Treasury Division.

2. Finance Department Imprest Cash Fund Detail Was Not Accurate

The Imprest Cash Fund Detail has not been updated to reflect a new custodian since September, 1999.

A good system of internal control is designed to prevent unauthorized persons from receiving payments. It also provides that all concerned parties receive notification of changes of authorized recipients such as imprest cash custodians.

When updated, and accurate records are not maintained, there is a greater risk of misappropriation, theft, and fraudulent activity. Further, when records are not updated there is a greater chance that the wrong person will be paid.

Staff reductions in the Finance Department have resulted in the lack of qualified staff to keep accurate records and maintain the necessary controls.

Recommendation

We recommend that the Finance Department establish procedures to update and maintain its records, and disseminate pertinent information to the appropriate parties.

OTHER FINDING RELATED TO THE FINANCE DEPARTMENT

1. The Finance Department-Accounts Payable Division Did Not Comply With Their Own Procedure

The Finance Department-Accounts Payable Division processed and paid imprest cash reimbursement requests that were submitted more than thirty days after the end of the month in which the original purchase was made.

The Accounts Payable Division issued a memorandum on April 10, 2005 requiring that all imprest cash reimbursement requests be submitted within thirty days from the end of the month in which the original purchase was made.

Failure to uniformly enforce the Accounts Payable Division's procedures or document the reasons for exceptions, reduce the effectiveness of the procedures and the concurrent controls mandated.

The Finance Department stated that imprest cash reimbursement requests that are submitted late are approved depending upon the nature of the requests, and the reasons the request was submitted late. Enforcement of imprest cash policies and procedures has been a problem due to lack of staff. The Department indicated that they are working on uniformly enforcing imprest cash policies and procedures.

Recommendation

We recommend that the Accounts Payable Division uniformly enforce their procedures.



Attachment A

March 12, 2009

Loren E. Monroe, Auditor General
Office of the Auditor General
2 Woodward Avenue
Coleman A. Young Municipal Center, Room 208
Detroit, Michigan 48226

Dear Mr. Monroe:

The following presents the Finance Department's response for the indicated findings and related recommendations in the January 31, 2009 audit of the Finance Department – Administration Division's Imprest Cash, as prepared by the Office of the Auditor General.

Finding No. 1. Non-compliance with Imprest Cash Policies and Procedures

Department's Response:

The Finance Department agrees with the Auditor General's finding and recommendations. As a result, the Finance Department will comply with the Imprest Cash Policies and Procedures. It should be noted that due to a lack of adequate staff the Finance Department did not properly maintain its Imprest Cash fund. Thus, the Finance Department intends to close its Imprest Cash fund by April 30th. Monies (\$1,000) will be returned to the City of Detroit Treasury.

Finding No. 2. Finance Department Imprest Cash Fund Detail Was Not Accurate

Department's Response:

The Finance Department agrees with this finding and recommendations. As a result, the Finance Department will correct its Imprest Cash Fund Detail.

